

The Ontario Ministry of Revenue

The Opportunities and Concerns
for Electronic Filing
of Ontario Corporations Tax Returns
and Standardized Accounting

Findings based on Group Discussions
with Accountants from major Corporations
and Public Accounting Firms
conducted at Queen's Park, Toronto
on May 19, 21 and 26, 1992

 **Ontario**
Ministry of Revenue

 Marketing Services
Taxpayer Services Branch
June 30, 1992

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Electronic Filing of Ontario Corporations Tax Returns
Qualitative Feedback from Accountants
representing Major Corporations

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Electronic Filing of Ontario Corporations Tax Returns

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HIGHLIGHTS

As part of the review of options for electronic filing and processing of Corporations Tax returns, several consultation workshops were conducted at Queen's Park in Toronto, during May, 1992. Participants in these groups were comprised of accountants and tax specialists from major corporations, with moderators provided by the Ministry.

The scope for these meetings was expanded beyond electronic filing to include group members' reaction to proposals under the ESPRIT/Standardized Accounting project. Some of the participants from earlier meetings held in March agreed to participate in one session, dealing only with the second topic. During these information-sharing sessions the following opportunities and concerns were identified:

Electronic Filing of Corporations Tax Returns

1. Accountants from major corporations believe that electronic filing is inevitable and they welcome this development in principle. They perceived the benefits similar to those identified earlier, including the very welcome faster processing, improved customer service - through increased convenience, easier information access, earlier refunds - and less concern for mail disruptions.
2. The in-house accountants, however, did not share the same concerns about the desirability to harmonize the CT.23 processes with Revenue Canada's T.2 return, as expressed earlier* by public accounting firms. Since technology progress is inevitable, they believed that Revenue should proceed with its plans to modify its own processes, including electronic filing.
3. The opportunity for "faster processing of Corporations Tax returns" was viewed as a separate process from electronic filing. Although the turn-round time for assessing returns was viewed as being too long, these tax specialists held no high hopes for significantly improving the present turn-round times.
4. Most large corporations file tax returns in several - some in over 25 - different jurisdictions, both in Canada and abroad. Consequently, they are accustomed to different filing formats and they do not view the differences or inter-dependence between the CT.23 and federal T.2 processes as particularly significant to begin with.
5. Almost all in-house tax specialists use the same commercial tax preparation software as partners in public accounting firms. However, some corporations have created customized schedules to meet the unique needs of their industry, e.g. the resource and financial sector.
6. To accommodate differences in filing tax returns with various jurisdictions - as well as meeting their own internal data-flow requirements, many large businesses use Lotus or Excel for preparing data used in tax schedules and simplified financial statements.

Most of this data is in a format that lends itself readily for electronic transmission, regional input and corporate consolidation.

7. Most in-house accountants also believe that the present volume of data required for CT.23 filing is excessive. The current process should be used to include a review of more realistic data needs, and hold these to a minimum required for assessment purposes. As at present, their records would always be available for audits when required.
8. Most accountants with large companies appear to prefer filing supporting schedule data and financial statements in Lotus or Excel, which already meets their own corporate needs for global electronic transmission, either via modem or via LAN. To allow for the limitations of smaller corporations, Revenue will have to adopt a more flexible approach, allowing electronic data transfer and filing via disc or hard copy returns as well.
9. Several in-house accountants believed that hardware and software incompatibilities will present major obstacles to early widespread electronic filing of tax returns. Many companies are still not equipped with IBM or IBM-compatible hardware. Variations in software programs and algorithms tend to compound the problem, even though significant progress is being made to narrow the 'gaps'.
10. The majority of participants believed that electronic filing is inevitable and they welcome Revenue's initiative. Owing to the volume of information involved, today most of them file their tax returns via mail or courier.
11. Several corporations are also most interested in having refunds sent electronically as soon as the assessment is completed. For many, the opportunity to access their files for reconciliation purposes is considered a major convenience and welcome time saver. This need is consistent with feedback made earlier by chartered accountants in public practice.

ESPRIT/Standardized Accounting

1. With regard to the number of instalment bases, many large companies now tend to "estimate a lot," using method 1 as their base system. However, this calculation option is often augmented or modified by either methods 2 or 3. Due to the current economic situation many companies now prefer to use a hybrid system as a "practical and realistic method". (See Appendix C, page 23, for explanation of proposed instalment bases.)
2. Most in-house accountants expressed their preference for a combination of the present optional methods 1 and 3, ahead of methods 1 and 2. It was speculated that this preference would become more widespread if the "2 and 10 month split" in method 3 were to be modified to a "3 and 9 month split, as used in Saskatchewan, or included an "optional initial range - varying from a minimum of three months to a maximum of six."
3. Several participants believed that it really doesn't matter much which method is used for calculating instalments, providing daily compounded interest is paid on excess payments. The introduction of daily compounded interest is generally most welcome.

4. At the same time, many in-house accountants believed that there is little need to use the same interest rate for both tax credits and overdue payments. However, they cautioned that the daily compound interest system would have to be consistent to discourage businesses from using Revenue as a bank.
5. The proposed application of instalment interest on reassessed years would cause problems for many large corporations and this issue was thus not met with any enthusiasm. Their concerns are based on fear of being charged additional interest for reassessments, rather than the extra taxes assessed and levied.
6. Participants indicated that developing the balance forward accounting system, with the intent of maintaining the integrity of each fiscal year would be preferable to an "open" system. However, some accountants wanted to defer their support until they know more about the details. Some, believing that the proposal might develop into extra work in tracking balances, expressed a clear preference for the present system, believing it to be simpler.
7. There was strong concurrence on the issue that Revenue should notify taxpayers before reapplying refunds to other fiscal years. At the same time, many corporations also want Revenue to be more flexible in allowing them to move tax credits or refunds from one tax account to another.
8. Some in-house accountants experienced difficulties in determining precisely how interest or penalties are calculated by Revenue Canada and Quebec. Although the Ministry of Revenue does not attach interest working papers to assessments or reassessments, participants have had no difficulties obtaining this information if needed. However, it was suggested that Revenue routinely publish its interest calculation program - especially where large amounts are involved, as well as provide details explaining the basis used for individual interest calculations.
9. Participants volunteered that they are generally pleased with the level of service being provided by Revenue's Corporations Tax Branch.
10. In general, the tone of these meetings was most business-like and cordial; most participants are agreeable to further co-operation and willing to contribute their time to future discussions.

* "The Opportunities and Concerns for Electronic Filing of Ontario Corporations Tax Returns," dated April 16, 1992.

Electronic Filing of Ontario Corporations Tax Returns
Qualitative Feedback from Accountants
representing Major Corporations

Background Situation

Following focus group discussions held with accounting firms and software vendors during February and March, an additional two group sessions were conducted with representatives from major corporations. These meetings, held in Toronto on May 19 and 21, 1992, were attended by accountants and tax specialists from a cross section of industry sectors. Earlier findings were documented in an interim report "Opportunities and Concerns for Electronic Filing of Ontario Corporations Tax Returns" dated April 16. The following findings are confined to the most recent discussion groups.

PART I: DISCUSSION WITH ACCOUNTANTS FROM MAJOR CORPORATIONS

1. General Reaction to the CT.23 Corporations Tax Return

The moderator's opening remarks outlined the progress in the use of technology, based on the material covered in Appendix "B". This development presented the Ministry of Revenue with the opportunity of having Corporations Tax returns filed electronically, to reduce the amount of paper filed today. It was explained that no firm decisions had been reached yet; the Ministry's staff first wished to learn about the opportunities and concerns from the participants in this and other interest groups consulted.

Harmonizing Filing Processes with Revenue Canada's

The accountants and tax specialists from major companies did not view the need to harmonize the electronic filing of the CT.23 with Revenue Canada's processes for their T.2 as significant as their counterparts from public accounting firms did earlier. This group of business taxpayers did not see any particular problem in the present practice and saw little risk if Revenue were to take the initiative for introducing electronic filing ahead of Revenue Canada.

Most of the participants in these groups believed that the problem is not with electronic filing as such, but with the format used for data transfer and the need for greater consistency throughout. Since some members of these groups were already filing electronically in some other - the US for one - jurisdictions, the inevitable question was raised whether the US IRS experience had been fully explored yet.

2. Extent of Computer Use

All the participants in these discussion groups use some form of commercial tax preparation software. Most of them use TaxPrep, with a small number using STM or Taxbyte. Unlike their counterparts in public accounting firms, many of the accountants from major corporations limit their use of commercial software packages to the preparation of the CT.23 shell alone. Most indicated that "their returns were too complex" and "available tax preparation software too restrictive" for their applications.

Even where some corporations are able to use the schedules provided with the tax software packages, they back the data up with spreadsheet programs. This practice evolved because most large corporations routinely move data in a format that is universally acceptable to their own operations in other provinces or countries. A small number had thus resorted to developing their own software for data supporting the tax schedules, since the same information was also required by other jurisdictions. Consequently, most use either Lotus or MS Excel spreadsheet for the preparation of their tax schedules.

Since many large corporations operating internationally have standardized their own financial reports on Lotus or Excel spreadsheet for transmission of data internally, this practice seems to have been carried over into their preparation of tax schedules with different jurisdictions as well.

3. Transmission of Corporations Tax Returns to Revenue

At present, most Corporations Tax returns are sent via registered mail, in spite of occasional problems both here in Canada and abroad. A few companies hand-delivered their returns, especially when a sizeable tax refund is expected. None of this group of larger corporations use FAX. Some were not even aware that this utility was available to them, while others doubted the practicality of this medium. A few expressed concerns about "dialing the wrong number" for not using this medium.

Many large corporations indicated that they already transfer business and financial data from one part of their organization to others, e.g. from Ontario to their head offices abroad, via LAN or other electronic means, and occasionally including FAX. Electronic filing of

Corporations Tax did thus not appear to present a major problem for this group of business taxpayers.

Most appeared to welcome the idea of electronic filing of the Ontario Corporations Tax return - at least in principle, providing the amount of filed data can be limited and tax schedules can be transmitted in a format consistent with their present internal and international practices.

4. Benefits, Preferences for Present Practices

The major benefit of the present practice for most corporations is that they have become familiar with the existing CT.23 filing processes. Few experienced major problems and, since most of them also filed returns in several other Canadian and International - jurisdictions, and they had become accustomed to differences in the various filing requirements.

Several representatives from corporations operating in other jurisdictions as well have become used to adapting Lotus and Excel spreadsheet for the preparation, analysis, reporting, consolidation or electronic exchange of data with various parts of the organization.

Since in most instances, major corporations prepared financial statements and tax schedules in Lotus or Excel, they were curious to know whether provision could be made to accept data prepared on these spreadsheet, since this would ease the burden for them. They also indicated that some benefit might accrue from studying the US IRS electronic filings now in existence since they accepted standardized, one-page financial statements, although a former government tax auditor defended the auditor's need for detail.

5. Continuing Obstacles

With regard to the preparation and filing of the CT.23 Corporations Tax returns, one of the ongoing obstacles is the volume of data required as part of that filing. Many corporations also provide part of this information to other jurisdictions, often in a different format. Thus, instead of using commercial tax preparation software for this purpose, many use one of the more popular commercial spreadsheet programs, Lotus or Excel, for preparing this data instead.

The amount of data required to complete the filing was considered excessive and, as such, it presented an obstacle to be overcome. This observation led to the question: "How much of the

data presently filed in the CT.23/T.2 is REALLY required for assessment purposes" and "can the information required by government for planning/forecasting not be obtained in some other way?" - "Can the optional data not be prioritized and limited to the bare minimum?" The preference of major corporations favours limiting the amount of data to be transferred, accompanied by a willingness to provide continued access to the companies' files for audit purposes.

Acknowledgement of Receipt

As a general comment, most corporations want Revenue to provide some form of immediate acknowledgement of receipt, especially for electronic filed returns. Some representatives from corporations operating internationally indicated that their firms "render up to twenty tax returns to various jurisdictions".

Need for Process Standardization

The present lack of standardization of processes which must be complied with by major corporations creates difficulties for internal tax planning and data transfer, when financial data and statements must be adapted for the various reporting forms and schedules used by different jurisdictions. For electronic transfer of data to work on a broad basis, there is need for a common standard for all parts of the tax filing and transfer of data.

As an alternative, short-term solution, consideration should be given to transferring required data on diskette for basic material, such as the CT.23, accompanied by schedules and financial statements in a standardized, Revenue system-compatible format. Most representatives conceded that in the longer term, the ideal solution remains computer-to-computer transfer of data.

6. Major Benefits for major Corporations Filing Electronically

Most representatives believed that the extension of technology for filing of Tax Returns is inevitable and - in principle - they were not opposed to the idea. Others expected that "there would be some improvement in processing turn-round times, but not by very much."

Simplification of Process

The major benefit from electronic filing as perceived by major corporations lies in the simplification of the filing process, largely in the area of supporting schedules. For electronic

filing to work satisfactorily, however, considerable standardization is also required, particularly in reducing the amount of data to be transmitted and the simplification and standardization of report forms, schedules, financial statements required for filing.

Electronic Tax Refunds

The ability to obtain refunds electronically without delay, once the assessment has been completed was also considered to be a major advantage, quite apart from easing the paper burden. At present there are often delays in writing and mailing refund cheques, compounded by delays in the postal system. Where refund cheques are for large amounts, these delays result in considerable losses of revenue income for the corporations. -- On the other hand, one representative indicated that - as long as interest rates were competitive - her company considers a delay in obtaining the refund cheque as a "\$ cash float."

Electronic Access to Account Information

A third benefit stems from the expectation that major corporations will be able to access their own account information at Revenue for reconciliation and verification purposes. Compared to the reaction from accountants with public accounting firms, this benefit appears somewhat lower in the participants' order of priorities, but there was little doubt that this issue was just as important to major corporations as well.

Minimum Data Requirement

Most representatives from major corporations suggested to confine the filing to a minimum of key data, to be supported by company data for auditing purposes. If data is filed on Lotus or Excel-generated hard copy, auditing still requires an audit visit, regardless whether the original filing was complete or not. Filing a Corporations Tax return manually does not now present a problem, since all the work is completed in one area; but electronic filing is expected to involve an extra step for many. It was generally conceded that, while electronic filing seems to be inevitable, it is most desirable to identify and minimize the REAL data needs for

- o Audit purposes, and
- o Data analysis for policy planning and development.

There was a general perception that electronic filing would lead to progressively more data required for the filing of Corporations Tax returns and that this, in turn, would inevitably lead to more questions. Group members were thus curious to learn "what additional data might be required that is not being captured now?" "Doesn't this development increase the risk of

information overflow?" -- Most concurred that the real cost/benefit would arise from simplified/streamlined data capture and less processing.

Electronic Data Transfer versus Disk

With regard to the preferred medium for the paperless transmission of information, the participants in these groups were almost evenly divided. As many appeared to favour electronic data transfer as others preferring the transmission of a floppy disk.

On Revenue Taking the Initiative

Unlike the accountants from public accounting firms, the representatives from major corporations do not consider it a major problem if Ontario develops electronic filing technology ahead of Revenue Canada. As one participant put it, "progress is inevitable and someone has to start it, make the first move, although the cost will be prohibitive." Even after repeated prompting by the moderator, the accountants from major corporations are not particularly concerned about Ontario's Ministry of Revenue taking the lead, ahead of Revenue Canada, in introducing electronic filing.

Several group members indicated that their companies already filed tax returns with several jurisdictions within and outside Canada. Since most of these filings have to be prepared individually to comply with respective statutes, the fact that Ontario's CT.23 form differs from Revenue Canada's T.2 does not cause major problems for these corporations.

Hardware and Software Compatibility

It was suggested that the most practical solution would be to use a "jacket" for transmitting data electronically, placing the onus on commercial companies to prepare a common package for filing acceptable by both, government and the business community. The development of software would have to ensure that the original program version continues to be protected, by providing for ongoing compatibility as software is progressively upgraded.

The IBM representative, however, also indicated that "although it is easy to understand the advantages stemming from electronic filing, the present lack of hardware and software compatibility among business users will pose a significant problem for Revenue to resolve."

Retroactive Legislation

Some concern was expressed about the impact of retroactive legislation once Corporations Tax

returns are filed electronically. In current practice a Lotus program can help, but the impact of retroactive changes may add complications. The majority of schedules among this group of corporations are apparently now filed in a format that does not form part of the commercial tax preparation software packages.

Signatures on Returns

Several participants were already experiencing problems with authorization at the most senior corporate levels. While obtaining signatures for the return involves a special process for some large corporations, in smaller companies, the CT.23 is signed by a senior official, e.g. Treasurer, who does not always understand the details.

7. Concerns about Electronic Filing

Several representatives from major corporations anticipated some problems with electronic filing, especially when it comes to matching filed data with others that is not on line or which was not submitted as part of the filing. Additional material, such as financial statements, could be sent via FAX.

Complex Tax Returns

Electronic filing may cause problems for some of the larger corporations, owing to the size of their tax returns, with schedules usually processed and stored in Lotus or Excel. Concern was expressed about the "need for signing off" the document to be filed electronically and about security.

Approval of Software

There appears to be widespread assumption that present tax preparation software is "approved" and that the results are always the same. Since neither appears to be valid, there is a definite need for some form of protocol defined by Revenue, defining the design logic, format of data. Compatibility of electronic filing and data transfer processes is highly desirable. If the software developers follow these standards, there will be more widespread acceptance of electronic processing including filing.

Tax Planning

Several representatives agreed that, with respect to refunds, it is important that the year to which a refund applies must be clearly identified on the refund cheque or stub, to allow the

necessary accounting adjustments to be made correctly and overcome difficulties in long-term planning. Most present tax preparation software is limited to two years cycles; therefore, planning must be done manually. This causes difficulties for some companies, particularly in the resource sector. **How can Revenue develop software to become mutually beneficial to meet its own and business needs?**

Electronic Transfer of Funds

The electronic transfer of funds did not raise a great amount of enthusiasm. Although the IBM representative indicated that they had developed the technology for doing so some time ago, they found that the processing time for their returns was not significantly reduced from before.

The processing times would have to be considerably shortened from the present, enabling companies to obtain tax refunds immediately after the assessment is completed - via electronic funds transfer - before the business interest in the electronic filing process can begin to increase.

Systems Incompatibility

The participants concurred that some obstacles arise from the fact that "there are still many corporations who are not committed to either IBM or IBM-compatible hardware." **The present lack of systems compatibility would represent a major obstacle to universal acceptance of electronic filing and electronic funds transfer, at least in the short term.**

Assessment & Processing Times

Also, the present 6 to 7 months time frame for rendering assessment notices was considered too long; however, as one representative acknowledged, they "cannot see how this can be much reduced with electronic filing." This concern is due to a belief that electronic filing is expected to permit more data to be processed than at present, with a corresponding increase in processing time.

8. Need for Safeguards

Most of the representatives from large corporations believed that "security is mostly Revenue's problem." This belief is a notable departure from the earlier feedback from the accountants with public accounting firms, who expressed concern about security on behalf of their clients.

Several participants, however, also believed that there would have to be some form of basic edit program. This concern was backed by the representatives from IBM and a major bank who cautioned that, since it is relatively easy to tap into software, there is a need for scrambling of data.

Some suggestions were made to ensure security of access, but it was concluded that, for signatures to be scanned, it would still require some form of hard copy to begin with, augmented - and later replaced - by some form of PIN identification system.

Regardless which system is ultimately adopted for widespread use, the representatives from large corporations believed that the security issue has to be somewhat flexible in the short term, since the ultimate filing solution would have to permit companies the option of either filing electronically, or transmitting data on disk or hard copy for some time to come.

9. Disadvantages of Elimination of Hard Copy Returns

Record Storage

The time frame for reassessment over a 6 to 7 year period, accompanied by staff changes, requires hard copy records to be maintained for some time to come. Tax records are still kept as hard copy by most large corporations, and accounting departments are under constant pressure to reduce storage space required for these records.

Very few of the largest companies keep all their accounting files on tape, although one or two who use this form of storage also indicated that, in the long term, they might dispense with general ledger data currently still stored on tape.

PART II: Standardize Accounting

Background

Following the group discussions held with accounting firms during February and March, an additional two group sessions were conducted with representatives from major corporations. The topic for these meetings, held at Queen's Park in Toronto on May 19 and 21, 1992 as described in the preceding pages, was then expanded to cover additional material related to the review of the ESPRIT - Standardize Accounting project. Accountants from Toronto-based

accounting firms were invited back on May 26, to discuss this issue with them as well. The findings are here combined, with differences identified, as and where appropriate.

The moderator began this session with a brief overview of the present methods available to Corporations for calculating their monthly tax instalments. The Ministry's drive to simplify procedures, processes and statutory requirements provided the impetus to study the feasibility of implementing proposals that affect the number of instalment bases available to taxpayers. The Ministry was exploring the possibility of reducing the number of the present four methods to one of two alternatives, based on two and three instalment bases, respectively.

1. Reduction of Instalment Bases

With recent changes in the economic climate, most company representatives felt that the time was good for Revenue to review the current four methods offered for calculating instalment payments. However, group members differed with regard to their preference for the alternatives considered; some even indicated that "Revenue's approach was too simplified and inconsistent with reality." Only a few shared the ideal of aligning provincial calculation options with federal practices, explaining that "this approach was not always beneficial, as long as the calculation of taxes and the refunding policies also differ."

Several companies have found that "estimating the basis for taxable income is now much more difficult than it was just a few years ago. As one tax specialist indicated, "within the first two-month period of their most recent fiscal year their income varied by millions from one day to the next, ending with a \$17 million loss at the end." Some companies using method three admitted that they now disregard the two month limitation in preference to three month period. It was generally agreed that **"the two month period used for calculating tax instalments - as in methods 3 and 4 - is too short."**

Even "if corporations had the time to go back two or three years to determine past performance, there was little relevance for doing so today, owing to economic changes and down-sizing or restructuring of corporations." The growing practice pointed towards using the current year as basis for estimating, which means paying **"less than the previous year."**

As a result, most larger corporations now tend to "estimate a lot" using method 1 as their base system, augmented or modified in some instances by either methods 2 or 3. Only a very few

of the larger corporations now use method 2 alone. Many companies prefer a hybrid system as a "practical and realistic method", based on a combined application of either methods 1 and 3, or 1 and 2. **These practices imply a preference for reducing the present four options to three more flexible options, rather than the two as suggested.**

Several accountants expressed some interest in version 3, providing the two-month base was extended to at least three months, as had apparently been done in Saskatchewan. Quite a few of the accountants present neither understood the merits, nor cared for method four. **Most participants, however, expressed their preference for a combination of methods 1 and 3, particularly if the latter method were to be modified to "include an optional range" - from a minimum of three months to a maximum of six.**

Most group members, especially accountants from public accounting firms, couldn't see much merit in changing the present system; they wondered whether the problem had not been somewhat overstated. As one partner pointed out: "If, according to your own research, 76% use methods one or two as the base for calculating instalment payments, then you're still short-changing a significant 24% who are still using one of the other two methods."

This view was supported by another "if (having) four systems is easy for taxpayers to understand, gives them the feeling that can't be hurt and they comply, why change?" His accounting firm had not experienced any difficulty with the present system, but suggested that instalment calculations might become part of future commercial software packages. **If daily interest is offered to overpayment of instalments, most participants in these sessions believed that it really doesn't matter which method is used.**

2. Daily Compound Interest

In principle, there was general agreement that interest payments should be based on compound interest calculated daily, "as long as this change is applied for both outstanding and overpaid taxes, based on the prevailing prime rate." Several group members had encountered problems because the current system favoured the government, in that credit interest is taxable as income, while debit interest is not tax deductible as a business expense.

The proposed changes in interest calculation were considered favourably by most accountants. Some, however, believed that the review should not be confined to interest rates alone.

Effective dates used for interest calculations and methods for reducing the current time required for processing Corporations Tax returns should also be considered. This issue was particularly important to corporations who expect to receive large refunds. Electronic funds transfer should be employed wherever possible to return refunds to taxpayers immediately after the assessment is completed, rather than incur extra delays resulting in financial loss to them.

Early instalments or deliberate overpayment need not pose an administrative problem if a meaningful differential is employed for penalty charges on overdue taxes, and for interest paid on refunds. Most accountants believed that there is no need to use the same interest rate for both, but the system should be consistent. Several representatives from major corporations also suggested that consideration be given to allowing the transfer of taxes overpaid on one corporate tax account to meet outstanding liabilities under another. Far more flexibility is needed in these areas.

3. Instalment Interest on reassessed Years

The application of instalment interest on reassessed years would cause problems for most large corporations and this issue was thus not met with any enthusiasm. Most corporations based their returns on the latest information available at the time of filing. Their concern was thus not as much about the extra taxes levied due to an omission or subsequent change, but their fear and total opposition to additional penalties. Some of the accountants believed that this system would be prone to manipulation, ultimately favouring Revenue and some corporate and public accountants even found it offensive. As one accountant exclaimed: "This may be legally right, but morally it is wrong!"

Most accountants believed that it would make the reconciliation of accounts very difficult when neither the effective dates nor the details of the interest calculation were known. It was therefore suggested that Revenue routinely publish its interest calculation program - especially where large amounts are involved, as well as provide details explaining the basis used for individual interest calculations. In any event, corporations taxpayers also believed that they should be informed about tax refunds before these are automatically re-assigned to future years.

4. Balance forward Accounting System

Many public accountants believed the balance forward accounting system was workable if each fiscal year was treated as a separate entity. Several accountants from major corporations expressed concerns about the proposed balance forward system. Several other group members expressed a clear preference for the present system, believing that to be simpler.

Although the concept of monthly statements similar to credit card companies accounts was easy to follow, some participants believed that it "raises concern that it may get lost." Others indicated that the analogy of a credit card statement was not totally valid, somewhat oversimplified and that more detail would be required to calculate interest relative to instalment payment due dates. Several accountants were confused by the missing details for this proposal, asking "How would Revenue deal with instalment payments being made?" "Would it be applied to the balance owing on reassessed years or put to the current year?"

Although the moderator explained that the payment would be applied as directed by the corporation taxpayer, a partner with a public accounting firm expressed some concern that this might lead to a need for "at least two accounts, one to balance the fiscal year end and another for instalment payments for unassessed years - with interest charged separately for each account." Some accountants were concerned about the extra work involved with the "separate tracking two accounts," expecting difficulties "when taxpayers have no idea of what they are paying." From a standpoint of dollars paid it may not be a major issue for concern, but according to one tax specialist with a public accounting firm, "there are many who simply do not wish to pay interest on taxes, and it does involve a lot more administrative costs."

Even if the integrity of each year could be assured, there was still no urgency among participants to commit to this change. Differences are expected, even if interest is calculated to the day and tracked on a computer. Several accountants "perceived difficulties with the balance forward accounting system, such as more correspondence from taxpayers, possible reconciliation difficulties - unless it is based on a yearly cycle."

Focus Group Participants

1. Accountants from major Corporations

Steve Marta	Tax Supervisor, Canada Stelco Inc. Hamilton
Wendy Schroeder	Manager, Taxation Royal Trust Company Toronto
Ken Smith	Manager, Taxation Consumers Gas Company Scarborough
Debra Tomalty	Manager, Taxation IBM Canada Ltd. Markham
Anne McGrath	Manager, Income & Sales Tax Union Gas Chatham
Fred Meridew	Specialist Income Tax Compliance General Electric Canada Inc. Mississauga
Doug Thomas	Manager, Canadian Taxation Toronto Dominion Bank Toronto
Doug Boasie	Manager, Canadian Tax Bank of Nova Scotia Toronto
David Chan	Manager, Taxation Motorola Canada North York
David Ogus	VP Finance Knob Hill Farms Ltd. Scarborough
Larry MacDonald	Taxation General Motors of Canada Limited Oshawa
Lawrence Kane	Corporations Tax Officer Canada Trustco Mortgage Co. London

Appendix "A"

Jack Zarek	Assistant Treasurer Oshawa Group Limited Etobicoke
Garfield Cressman	Income Tax Advisor, Corporations Tax Compliance Imperial Oil Limited Toronto
John Geikins	Income Tax Advisor, Corporations Tax Compliance Imperial Oil Limited Toronto
Joan Herpers	Manager, Taxation Northern Telecom Canada Limited Mississauga
John MacFarlane	Supervisor, Taxation Hudson's Bay Company Toronto
Keith McCann	Manager Tax Research Noranda Inc. Toronto
Lynn Schmeeckley	Tax Manager McDonalds Corporation Toronto

2. Chartered Accountants with Accounting Firms

Donna Ellis	Tax Manager Armstrong, Szewczyk, Klayman Toronto
Daniel Saikaley	Senior Manager, National Tax Peat Marwick Thorne Toronto
Rob De Biasio	Manager Price Waterhouse Toronto
Joseph Gill	Partner, National Tax Ernst & Young Toronto
Rags Davloor	Tax Accountant Arthur Anderson & Co. Toronto

David Cunningham	Partner, CMA Representative G.G. Cunningham & Associates North York
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3. Group Moderators

John Godden	Director Revenue Operations & Research Branch Ministry of Revenue
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Tony Ming	Senior Manager, Planning Corporations Tax Branch Ministry of Revenue
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4. Project Analysts & Report Preparation

James A. Schauer	Manager, Marketing Services Taxpayer Services Branch Ministry of Revenue
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Jan Marchant	Marketing Specialist Taxpayer Services Branch Ministry of Revenue
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5. Project Specialists and Executive

Sewack Gurdin	Director & Project Sponsor Tax Appeals Branch Ministry of Revenue
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Nicole Anidjar	Director Corporations Tax Branch Ministry of Revenue
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Claude Dagenais	Director Employer Health Tax Branch Ministry of Revenue
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Jim Evans	Executive Director Revenue Services & Operations Division Ministry of Revenue
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Joan Hannan	Snr. Systems Analyst, EHT/ESPRIT Information Technology Division Ministry of Revenue
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Barb Riley	Snr. Systems Analyst, CT/ESPRIT Corporations Tax Branch Ministry of Revenue
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6. Communications Planner and Logistics

Colleen Kelly-Forrester

Snr. Communications Officer
Corporate Projects
Communications Services Branch
Ministry of Revenue

Information shared with Participants:

INTRODUCTION TO ELECTRONIC FILING CONCEPT

1. Background

- o Significant demand for more detailed business data. There is an increasing need for more complex data to support the needs of the Treasury's Fair Tax Commission, to evaluate the cost and effectiveness of tax policy changes, and to satisfy the information needs Audit.
- o 75-80% of all Corporations Tax Returns are processed electronically. The current system can only accommodate hard copy returns, even though a recent survey showed that 75 to 80% of all Corporations Tax returns are prepared electronically, using tax preparation packages.
- o Existing Returns System is over 20 years old. The current system has reached critical mass, which severely inhibits this Ministry's ability to:
 - + Implement new initiatives quickly and economically;
 - + Provide quality customer service;
 - + Absorb workload growth.
- o Re-engineer systems and processes. Existing systems and processes were re-engineered to increase efficiency and to maximize automation.
- o Reduce duplication of data between branches. Returns processing systems are separate within branches and vary in complexity, i.e., from a simple RST process to complex CT editing rules. One of the objectives of this project is to standardize procedures across branches.

2. Benefits

- o Refunds will be issued sooner. It is anticipated that assessments will be issued almost immediately, thereby accelerating payments and collections actions, reducing the turnaround time to process returns from an average 15 days to 3 days.
- o Increase level of customer service. By providing refunds faster and reducing investigation time, Revenue can improve its level of service since taxpayer inquiries will be easier to track.
- o Additional tax information. This data will assist in the evaluation of the impact of tax policy changes and satisfy the information needs of Audit and Treasury.
- o More efficient processing. The redesigned system could easily handle changes with minimal impact and increases in electronically filed returns. Significant other benefits may be realized through this electronic link in the future, i.e. Direct Deposit of Refunds.

Appendix "B"

3. Notes and Research Findings

- o In 1990 the federal government began the pilot project 'E-FILE' with two practitioners in Manitoba. In 1991 there were 146 authorized agents who filed 70,000 T.1 tax returns in the prairie provinces. This year, they expect to have 1,200 agents filing about 1 million tax returns electronically.
- o Revenue Canada is planning a number of enhancements for E-FILE, including:
- o Electronic processing of corporate and other types of returns
- o Direct deposit of refunds cheques to the taxpayer's bank account, using electronic data interchange (EDI) technology, and allowing any balance due to be paid by bank card or through EDI.
- o In the United States, the IRS reported in their Research Bulletin that in 1991 - just after two years as a nationwide program - over 7.5 million returns were filed electronically. Also, 7% of all individual returns and over 9% of refund returns were filed electronically.
- o New Mexico is the leader among the states in the area of electronic filing. Over 100,000 returns - about 15% of all individual returns - were received electronically.
- o The issues discussed below are taken from the National Association of Computerized Tax Processors (NACTP):

"Critical Issues From a Preparer's Perspective

ADMINISTERED BY PREPARERS

Preparers are responsible for entering return data, transmitting returns, obtaining necessary signatures etc., and in turn a communications system must be in place to support the preparers as providers of the electronic filing services.

PARTICIPATING SHOULD BE EASY

Rules and assistance for the electronic preparer should be the same as for the preparer who files returns on paper.

BENEFIT TO THE TAXPAYER

In order to effectively market electronic filing, the program must offer real benefits to the taxpayer, such as faster refunds.

PROVIDE SECURITY

Controls must be in place to make sure that all of the client data is secure throughout the process of electronic filing."

Critical Issues, continued:

COMPATIBLE WITH EXISTING HARDWARE

Wherever possible, the electronic filing system must support the hardware which is currently in place in the preparer's office. This will prevent the preparer from having to make additional investments in hardware.

ACCEPT REFUND AND BALANCE DUE RETURNS

The system should be able to handle 'ALL' types of tax returns.

ENCOURAGE SOFTWARE DEVELOPERS

If the electronic filing system mirrors the federal electronic filing system, it will meet with quick acceptance by software developers."

"Critical Issues From a Software Developer's Perspective

ADHERE TO THE FEDERAL SYSTEM

Separate or completely different procedures for electronic filing would cause the software developer to incur additional costs and limit the acceptance of electronic filing.

SUPPORT CURRENT ELECTRONIC FILE FORMATS

Currently electronic filing has various formats. Controls must be in place to incorporate federal requirements to minimize the amount of development required.

DEVELOP DATA VALIDATION CRITERIA

Guidelines should be developed to indicate data requirements for processing of the electronic return. These requirements include front end initial checks, to ensure the integrity of the return and periodically testing preparer software.

INVOLVE SOFTWARE DEVELOPERS

To ensure the acceptance of electronic filing, the participation of software developers and preparers must be encouraged.

ELECTRONICALLY ACKNOWLEDGE RETURNS

The electronic filing system must provide some acknowledgement that the return has been accepted and will be processed.

ESPRIT - STANDARDIZE ACCOUNTING

A Discussion Paper

on

Alternative Corporations Tax Instalment Bases

Prepared: May 11, 1992

ESPRIT - STANDARDIZE ACCOUNTING

Introduction

2

The Ministry's current taxation accounting processes and systems have become progressively more complex. In particular, this direction is affecting the Ministry's ability to respond to government policy directives. The Ministry has therefore commenced a comprehensive business reengineering project to meet the following objectives:

- > To be responsive to government policy directives, quickly and economically;
- > To simplify existing process where possible; and
- > To provide taxpayers with efficient service and effective support from the Ministry.

An integral part of the re-engineering methodology is to elicit input from taxpayers regarding the impact of potential changes on their operations and to actively encourage suggestions to make existing Ministry processes more efficient.

Proposals being contemplated for the Corporations Tax Branch include:

- > Application of instalment interest on reassessed years;
- > Daily compound interest;
- > Reduction of instalment bases; and
- > Balance forward accounting system.

The focus of today's discussion will be to explore the issues associated with alternative instalment bases.

ESPRIT - STANDARDIZE ACCOUNTING

Background

3

The Ministry's drive to simplify procedures and statutory requirements provided the impetus to study the feasibility of implementing proposals affecting the number of instalment bases available to taxpayers. The major reasons for exploring such proposals are:

1. Responding to taxpayers' requests to simplify the Corporations Tax Act. The results of a Ministry survey indicated that 76% of the corporations contacted utilized the current and 1st prior methods for calculating instalment payments.
2. Reducing the administrative effort required to perform an assessment. The permutations and combinations to establish the correct instalments will be reduced from 19 to 5, if instalment bases are decreased from 4 to 2.

However, the issue of calculating instalments for a current unassessed year could be hampered since the actual financial performance of a corporation will not be known until financial statements are prepared. This event could occur up to six months after the end of the fiscal year. To reduce the impact of this uncertainty, the Ministry could provide credit interest on overpayment of instalments.

ESPRIT - STANDARDIZE ACCOUNTING Background (continued)

4

Currently, the Corporations Tax Act provides four methods for calculating instalments:

Least of:

1. $1/12$ th of the estimated tax payable for the current taxation year; or
2. $1/12$ th of the tax payable in the previous taxation year; or
3. for the first two months, $1/12$ th of the tax payable two years ago, and for the next 10 months, $1/10$ th of the difference between last year's tax payable and the amount paid for the first two months; or
4. for the first two months, $1/12$ th of the tax payable two years ago, and for the next ten months, $1/10$ th of the difference between the current year's tax estimate and the amount paid for the first two months.

ESPRIT - STANDARDIZE ACCOUNTING Background (continued)

5

Ministry is exploring the possibility of reducing the number of instalment bases. The alternatives are:

(2) Instalment Bases

Least of:

1. 1/12th of the estimated tax payable for the current taxation year; or
2. 1/12th of the tax payable in the previous taxation year.

and (3) Instalment Bases

Least of:

1. 1/12th of the estimated tax payable for the current taxation year; or
2. 1/12th of the tax payable in the previous taxation year; or
3. for the first two months, 1/12th of the tax payable two years ago, and for the next 10 months, 1/10th of the difference between last year's tax payable and the amount paid for the first two months.

ESPRIT – STANDARDIZE ACCOUNTING
Comparing Instalment Bases

TAXATION PERIOD: 31-OCT-94

3 INSTALMENT BASES

CURRENT YEAR'S ASSESSED TAX
\$25,480

FIRST PRIOR YEAR'S TAX
\$19,914

SECOND PRIOR YEAR'S TAX
\$18,204

INSTALMENT BASE	
DATES	AMOUNTS
30-nov-93	\$1,517
31-dec-93	1517
31-jan-94	1688
28-feb-94	1688
31-mar-94	1688
30-apr-94	1688
31-may-94	1688
30-jun-94	1688
31-jul-94	1688
31-aug-94	1688
30-sep-94	1688
31-oct-94	1688
31-dec-94	5566

2 INSTALMENT BASES

CURRENT YEAR'S ASSESSED TAX
\$25,480

FIRST PRIOR YEAR'S TAX
\$19,914

INSTALMENT BASE	
DATES	AMOUNTS
30-nov-93	\$1,659
31-dec-93	1659
31-jan-94	1659
28-feb-94	1659
31-mar-94	1659
30-apr-94	1659
31-may-94	1659
30-jun-94	1659
31-jul-94	1659
31-aug-94	1659
30-sep-94	1659
31-oct-94	1659
31-dec-94	5572

ESPRIT - STANDARDIZE ACCOUNTING

Comparing Instalment Bases

7

PROCEDURES FOR ESTABLISHING INSTALMENT BASES

3 INSTALMENT BASES

- 1.) Determine the tax amounts for the current, 1st prior and 2nd prior taxation periods.
- 2.) Establish the least, middle and greatest amount of tax.
In this alternative:
 - the first 2 instalments are based on the 2nd prior tax (least)
 - the remaining 10 instalments are based on the 1st prior tax (middle) less the 2 instalment amounts based on the 2nd prior tax
 - the difference between the current tax (greatest) and the total of the 12 instalments is the Balance of Tax Due.
- 3.) Instalment due dates are determined using the fiscal year end date and the prior year end date.
- 4.) The balance of tax due date is determined from:
 - the taxable income,
 - the corporation type (Canadian Controlled Private Corporation) and
 - the fiscal year date.

2 INSTALMENT BASES

- 1.) Determine the tax amounts of the current and 1st prior taxation periods.
- 2.) Establish the least and greatest amount of tax. In this example all twelve instalments are based on the 1st prior tax (least). The difference between the current and 1st prior taxes is the balance of tax due.
- 3.) Instalment due dates are determined using the same method described for 3 Instalment Bases.
- 4.) The Balance of Tax due date is determined using the same method described for 3 Instalment Bases.

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